

## Statement on the release of the updated Gas Target Model

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**Brussels, 2 February 2015** • EUROPEX hereby welcomes the finalization of the review and update of the Gas Target Model by ACER. Competitive, well-functioning and secure traded gas markets are of core importance for producers, traders, consumers and energy exchanges alike and are a precondition for the creation of a single European energy market.

**Frederick Bernthaler**, Head of the Europex Working Group Gas Market (WGGM) stated the following: *"It is appreciated that ACER has taken into account responses from the consultation phase calling for a proper analysis of actual trade data and also stakeholder response from a market survey"*.

However doubts remain, if by applying the newly established criteria "functioning" wholesale markets can be identified. Further substantive questions persist with regard to the following:

- The analysed data covers only a limited time window. When looking at the development of hub price convergence and market criteria, it might be advisable to take into account a longer time horizon, since general trends might not be visible due to events with a short term market impact (e.g. technical problems, system changes etc.).
- The choice for the performance of TTF and NBP as thresholds values for a well-functioning market is ambiguous. A formal evaluation based on criteria that are the result of consensus instead of a fundamental analysis seems unfit for purpose. The (consensus) criteria should be an indication at best, not the definite criteria to evaluate the function of a market. Each market should be evaluated based on qualitative criteria.

EUROPEX is in favour of closer harmonizing the market structure in Europe and removing barriers for cross border transport and welcomes the fact that ACER will continue to focus on the implementation of the Network Codes. However, we do not think that there is a “one size fits all solution” that should to be forced on the market. Regional differences and different types of markets (spot/futures) clearly serve different purposes. For example, balancing markets have physical limitations (the grid in CEE cannot be balanced with gas in southern Europe). Any evaluation should include these differences. After such evaluation, ACER and national regulators should focus on the markets that experience the most structural problems and thus have the most to gain. The historical development of TTF and NBP as well as the major US hub shows that establishing a liquid hub is a matter of time and cannot be generated by regulation alone. Thus the 2017 deadline could be too early.

*“We will see, if the new criteria are suitable for a holistic market assessment and we will analyse the Gas Target Model 2014 in detail”,* which will be one of the priority topics on the next meeting of the EUROPEX WGGM, that will be held in Vienna in the first quarter of this year.

EUROPEX is of the view that in order to release the full potential of European energy markets subsidies and price regulation shall be removed and demand side participation in wholesale markets shall be promoted, in order to enable a genuine development and connection of markets.

However, any regulation that goes beyond setting the necessary framework may distort rather than enable market development. Liquid markets and integration are results of a bottom up process driven by the market, not a top down process designed by policy or regulation.

In order to support the positive development of traded gas markets, EUROPEX reaches out to ACER and National Regulators to discuss the matter of “best practice in gas market design” and market assessment / evaluation in relation to gas markets.

**About:** Based in the European quarter of Brussels, Europex is a not-for-profit Association of European Energy Exchanges, currently with twenty one members. It represents the interests

of exchange-based wholesale electricity, gas and environmental markets with regard to developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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